

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58094

SOUTHWEST WASHINGTON HEALTH DISTRICT

Clark County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: February 28, 1997

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SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Health
Southwest Washington Health District
Vancouver, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the Southwest Washington Health District, Clark County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 19, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Southwest Washington Health District is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the district's management in our report on general requirements and in the Schedule of Federal Findings.

This report is intended for the information of management and the board of health and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 19, 1996

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Health
Southwest Washington Health District
Vancouver, Washington

We have audited the general-purpose financial statements of the Southwest Washington Health District, Clark County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 19, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the district's management in our report on general requirements and the Schedule of Federal Findings.

This report is intended for the information of management and the board of health and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 19, 1996

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The Southwest Washington Health District Should Submit Timely And Accurate Financial Reports

The district has not been submitting its annual financial reports to the State Auditor's Office (SAO). In addition, during the course of our current audit, we noted that the financial statements on hand at the district contained numerous errors requiring restatement.

RCW 43.09.230 states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year . . .

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements . . .

Their substance shall be published in an annual volume of comparative statistics . . . as a public document.

When reports are not filed, it limits the ability of SAO to respond to inquiries for financial information and to provide complete and timely comparative statistics. In addition, auditing inaccurate and incomplete financial information increases audit time and attendant costs.

The district was not aware it was required to annually submit financial reports to SAO. In addition, the errors occurred because it was not fully familiar with governmental financial reporting requirements.

We recommend the district adhere to statutory requirements by accurately preparing and timely filing future annual reports.

We further recommend that staff receive the necessary training to comply with reporting requirements.

Auditee's Response

The Health District has submitted financial reports to the State Department of Health annually for several years. Inadvertently, the Health District staff felt this was in compliance with State requirements. The Health District will henceforth send appropriate and timely financial reports to the State Auditor's office, as well as the Department of Health. Health District staff will seek additional training to increase expertise.

2. The Southwest Washington Health District Should Improve Controls Over Cash Receipts And Billings

Our review of the internal controls over the billing and receipting systems identified the following weaknesses:

- Unreceipted Transactions: The district cuts off their receipting process mid-afternoon. Any receipts collected after the cutoff until the end of the day are held until the next morning before being receipted.
- Missing Sequence Numbers: The district sequentially accounts for the physical existence of prenumbered client encounter forms. However, no follow up is performed to ensure that missing encounter forms are receipted or billed. During November and December 1995, the district did not collect revenues totaling \$846 for services for 29 client visits.
- Unauthorized Adjustments And Write-Offs: We reviewed 16 account write-offs and adjustments performed during 1995. None of these contained the proper approval required by the district's accounts receivable write-off and adjustment policy. Explanations for the write-offs and adjustments were not adequate and supervisory approval review of these transactions was not performed.

While management has improved the cash receipting system over the years, it still has not implemented all the controls necessary to adequately control receipts.

These weaknesses put the district at risk for the misuse, abuse, or possible loss of public funds.

In addition, cash receipting weaknesses increase audit time and attendant audit costs.

We recommend the district improve controls by implementing the following procedures:

- Receipt all transactions as they are received by the cashiers.
- Perform supervisory follow up on all missing encounter forms.
- Thoroughly document all adjustments and write-offs and require supervisory approval.

Auditee's Response

Accounts receivable staff has proposed and implemented responses to the three internal billing and receipting system control weaknesses cited by the State Auditor. These responses include:

- Adjusting work loads of cashiering staff to not "cut off" receipting process in the late afternoon, but rather will adjudicate by cashier each day's activity within the same day.*
- Control of encounter numbers has been addressed through a plan to issue encounter forms to accountable personnel only. This will allow Administration to best track "walk outs" and to assure each encounter form is monitored and accounted for.*

- c) *The existing write off procedure was reviewed. To better adhere to policy and to document compliance to our internal policies, the write off and adjustment approval process has been altered. Each adjustment will receive supervisor authorization.*

Auditor's Concluding Remarks

We appreciate the district's prompt response to the recommendations reported above and we thank the staff for their assistance and cooperation during our audit.

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Board of Health
Southwest Washington Health District
Vancouver, Washington

We have audited the accompanying general-purpose financial statements of the Southwest Washington Health District, Clark County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Washington Health District, at December 31, 1995, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 1996, on our consideration of the district's internal control structure and a report dated November 19, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

November 19, 1996

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Health
Southwest Washington Health District
Vancouver, Washington

We have audited the general-purpose financial statements of the Southwest Washington Health District, Clark County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 19, 1996. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Southwest Washington Health District taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

November 19, 1996

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Health
Southwest Washington Health District
Vancouver, Washington

We have audited the general-purpose financial statements of the Southwest Washington Health District, Clark County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 19, 1996.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Civil rights
- Cash management
- Allowable costs/cost principles
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Federal financial reports
- Drug-Free Workplace Act
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Federal Findings.

This report is intended for the information of management and the board of health and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 19, 1996

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Health
Southwest Washington Health District
Vancouver, Washington

We have audited the general-purpose financial statements of the Southwest Washington Health District, Clark County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 19, 1996.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Southwest Washington Health District complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the board of health and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Board of Health
Southwest Washington Health District
Vancouver, Washington

We have audited the general-purpose financial statements of the Southwest Washington Health District, Clark County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 19, 1996.

In connection with our audit of the financial statements of the district and with our consideration of the district's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Southwest Washington Health District had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of health and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 19, 1996

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Health
Southwest Washington Health District
Vancouver, Washington

We have audited the general-purpose financial statements of the Southwest Washington Health District, Clark County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 19, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated November 19, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on the compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and internal control structure procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated November 19, 1996.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Allowable costs/cost principles
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash disbursements
 - Inventory control
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Drug-Free Workplace Act

Subrecipient monitoring

- **Specific Requirements**

Special requirements

During the fiscal year ended December 31, 1995, the district expended 66 percent of its total federal financial assistance under major federal financial assistance programs and the following nonmajor federal financial assistance program: Maternal and Child Health Services Block Grant (CFDA 93.994).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, and the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the district's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

This report is intended for the information of management and the board of health and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not

limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 19, 1996

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. Fixed Asset Control System Should Be Strengthened And The Fixed Asset Recording System Should Contain Information Required By Federal Grant Requirements

Our audit of the Southwest Washington Health District fixed asset system disclosed the following internal control weaknesses:

- There is no system in place to ensure that all of the capital expenditures are recorded on the fixed asset records and, ultimately, the financial statements. During 1995, \$158,800 in capital expenditures were made, yet only \$26,926 was added to the fixed asset listing.
- Documentation supporting deletions from the fixed asset system was not complete and accurate in all cases.
- Not all assets were tagged identifying them as district property.
- Assets purchased with federal funds were not identified on the fixed asset records. In addition, federally funded assets totaling \$22,395 were not recorded on the fixed asset records.
- Physical inventories were not performed and reconciled to the fixed asset ledgers on a regular basis.

"Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, issued by the Office of Management and Budget, March 1988, Subpart C, Section .32(d), Management Requirements, states in part:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System (BARS)* manual which states, in Volume 1, Part 3, Chapter 7, page 17:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

The effect of not tagging or logging all assets into a fixed asset system results in a higher probability that errors or theft could occur and not be timely detected. This is especially true for small and attractive items such as computers which have a high potential for misappropriation.

This situation occurred because the district has not implemented proper internal controls and procedures to adequately protect and account for fixed assets.

We recommend the district strengthen internal controls to ensure district property is properly recorded and adequately safeguarded.

We further recommend the district develop a fixed asset accounting system capable of demonstrating compliance with federal grantor requirements.

Auditee's Response

To respond to cited weaknesses in the fixed assets control system, the Health District, during 1997, will complete the following work plan:

- a) *Review of current fixed assets standard operating procedures has been initiated and will conclude by March 31, 1997. This review will produce an improved fixed assets accounting system and strengthen internal controls.*
- b) *During 1997, cited concerns will be addressed and resolved, namely:*
 - *All 1995, 1996, and 1997 capital expenditures will be added to the fixed asset list.*
 - *All assets will be tagged.*
 - *A physical inventory will be performed.*

2. The Southwest Washington Health District Should Improve Controls Surrounding Hope Fund Disbursements

In December 1994, the district established an imprest checking account for distribution of emergency funds for HIV/AIDS clients. This account, titled the Hope Fund, is funded by local donations and federal grant funds. In the original resolution, the district established annual limits of emergency help given to clients. During review of this account, we found the following weaknesses:

- Inadequate formalized policies and procedures for program operation. We noted the limit per client was informally changed and costs constituting emergency assistance were not defined causing some inconsistent uses of the funds among the case managers.
- Disbursements from the account were not always limited to emergencies. We noted one instance where the account was inappropriately used for a fundraiser.
- Disbursements to clients were not tracked to ensure the limit established by the district was not exceeded. We reviewed 14 client files from 1995 and 1996 and found the limit was exceeded in four instances, totaling \$655. In addition, we noted payments for pharmaceuticals and bus passes were not tracked by client.

- All disbursements were not supported by receipts. Five of the fourteen files reviewed did not contain complete documentation to support payments.

Revised Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, issued by the Office of Management and Budget, May 1995, Attachment A, Section C 1, states in part:

1. Factors Affecting Allowability of Costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- c. Be authorized or not prohibited under State or local laws or regulations.

The internal control weaknesses resulted because management did not establish concise, written guidelines to ensure the proper use of Hope Fund resources.

These weaknesses increase the risk that funds will be misused and, as a result, increase audit costs.

We recommend the district strengthen controls by:

- Adopting a formal policy establishing the specific uses and client limits for Hope Fund resources.
- Using the fund only for emergency benefits.
- Tracking expenses by client to ensure that limits are not exceeded.
- Retaining receipts to support disbursements.

Auditee's Response

Improvements have been implemented to the Hope Fund through an updated HOPE FUND OPERATIONS POLICY. This policy cites specific improvements and assigned more clearly accountability to assure the policy is followed.

Auditor's Concluding Remarks

We appreciate the district's prompt response to the recommendations reported above and we thank the staff for their assistance and cooperation during our audit.

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The finding contained in the prior audit report was resolved as follows:

1. The Southwest Washington Health District Should Improve Controls Over Travel And Work Related Expenses

Resolution: Resolved. The district has taken steps to strengthen controls, including requiring the repayment of excess travel expenses.